



Maximizing Your Thrift Savings Plan

Presented for:
Colorado Federal Executive Board
Denver, CO
May 21, 2015
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6 Areas Where Congress Might Change Federal Benefits in 2015

- 1. Retirement Pensions** - Already created FERS RAE and FRAE. Would like to change formula and reduce pensions in future - legislation has also been introduced to reverse FERS RAE and FRAE!
- 2. Ryan Budget** - Ryan's proposal calls for employees to contribute 6.35% toward pensions. Also includes 10% attrition-based workforce reduction.
- 3. Sequestration** - A ten-year program begun in 2011, expect a showdown in 2016. Could force furloughs and/or hiring freezes.
- 4. Pay Freeze** - After finally receiving small pay increases in 2014 and 2015, this is an area that's always under pressure.
- 5. Civil Service Protections** - Lawmakers are looking to hold federal executives responsible for actions and loosen firing process.
- 6. Government Shutdown** - Will Congress be able to agree on spending bills?

Magic TSP Numbers

Ages

55 = Access to TSP without 10% excise penalty if you separate or retire

59½ = Access to TSP Funds for one-time withdrawal if still working

Penalty-free access to IRA's, 401(k)'s, etc.

70½ = Must begin taking at least minimum withdrawal from tax-qualified accounts (TSP, IRA's)



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Magic TSP Numbers

Savings Amount Needed At Retirement

\$1,000,000



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Rule of Thumb – 10%

Amount you need to save each year to have a comfortable supplement to your federal pension at retirement



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FED TAPE

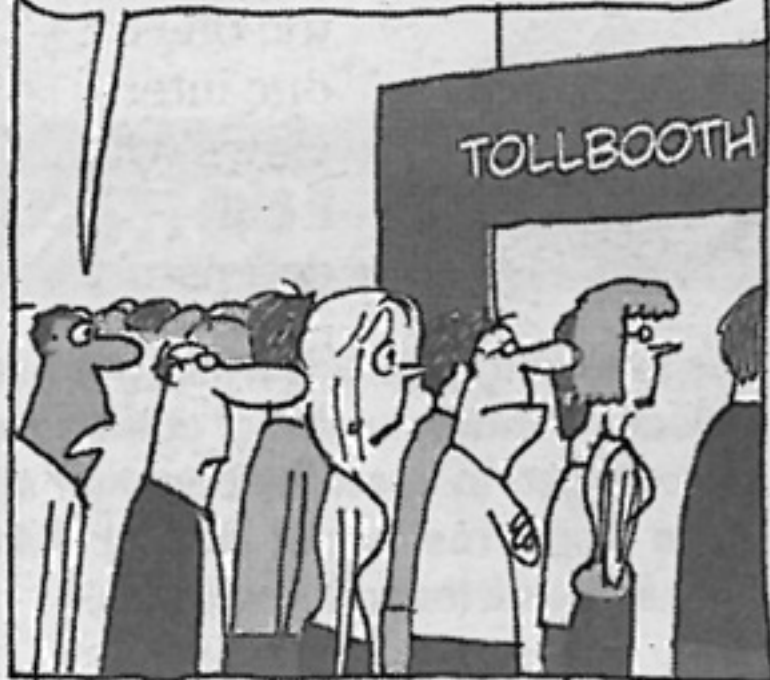
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MAN, IT SEEMS LIKE
CONGRESS WANTS TO
BALANCE THE WHOLE
DEFICIT ON OUR BACKS.

YEAH, WITH FURLONGHS,
PAY FREEZES, PENSION
CUTS, YOU NAME IT.



BUT I REALLY THINK
HALLWAY TOLLS ARE
GOING TOO FAR.



A Short History of the TSP

Implemented in January 1988

S and I Funds added in May 2001

Everyone could participate up to IRS limits in 2005

Largest defined contribution plan in the US with \$439.7* Billion in assets (of which \$2 billion is Roth TSP), ~4.68 million participants (459K use Roth) with 87% of FERS employees participating - 25% of those who contribute put in less than 5%

* as of 11/30/14 Source: www.frtib.gov and www.tsp.gov



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Interesting Stats

- 30% of federal workforce spends their entire career as a fed
- 7% of federal workforce is under age 30 vs. 1975 when 20% were under 30
- In 2015, only 3% of federal workforce is CSRS
- There are 1.5 million CSRS retirees - only 391K FERS retirees
- The majority of retirees are age 60-70 - but 1,295 are over 100!
- 40 of TSP millionaires used only L Funds, 68 used combination of L and core funds and remainder used only core funds
- Total agency contributions in 2013 - \$7,631,123,000
- Average employee contribution - ~\$5,000



Interesting TSP Stats

4,167 TSP “millionaires” - 1 with \$4.8 million! (was 208 at start of 2012
- up more than 20 times in 3 years)*

Account Balance	Number of Participants	
Under \$50,000	2,798,455	Average time in plan - 11.6 years
\$50,000 – \$249,999	1,426,098	
\$250,000 – \$499,999	375,472	
\$500,000 – \$749,999	95,664	
\$750,000 – \$999,999	21,485	Average time in plan - 25.5 years
\$1,000,000 and over	4167	

* Source: fedsmith.com



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Past Legislation Still in Implementation

Four provisions in Tobacco Act of 2009 affected TSP:

- ☑ Creation of Roth TSP - May 7, 2012
- ☑ Automatic enrollment for new federal employees - latest legislation automatically uses L Fund allocation
- ☑ New survivorship options
- Option to create mutual fund choices for investment - currently \$1 million Mutual Fund Window analysis underway to determine implementation



Prospects of Higher Taxes



"Just stop thinking of it as your money, and this'll go a lot easier for both of us."



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TSP Options While You're Working

- Amount of Contributions
- Amount You Contribute to Roth TSP
- Allocation
- How Much You Borrow
- Withdrawals After Age 59 ½
- Beneficiaries



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Thrift Savings Plan

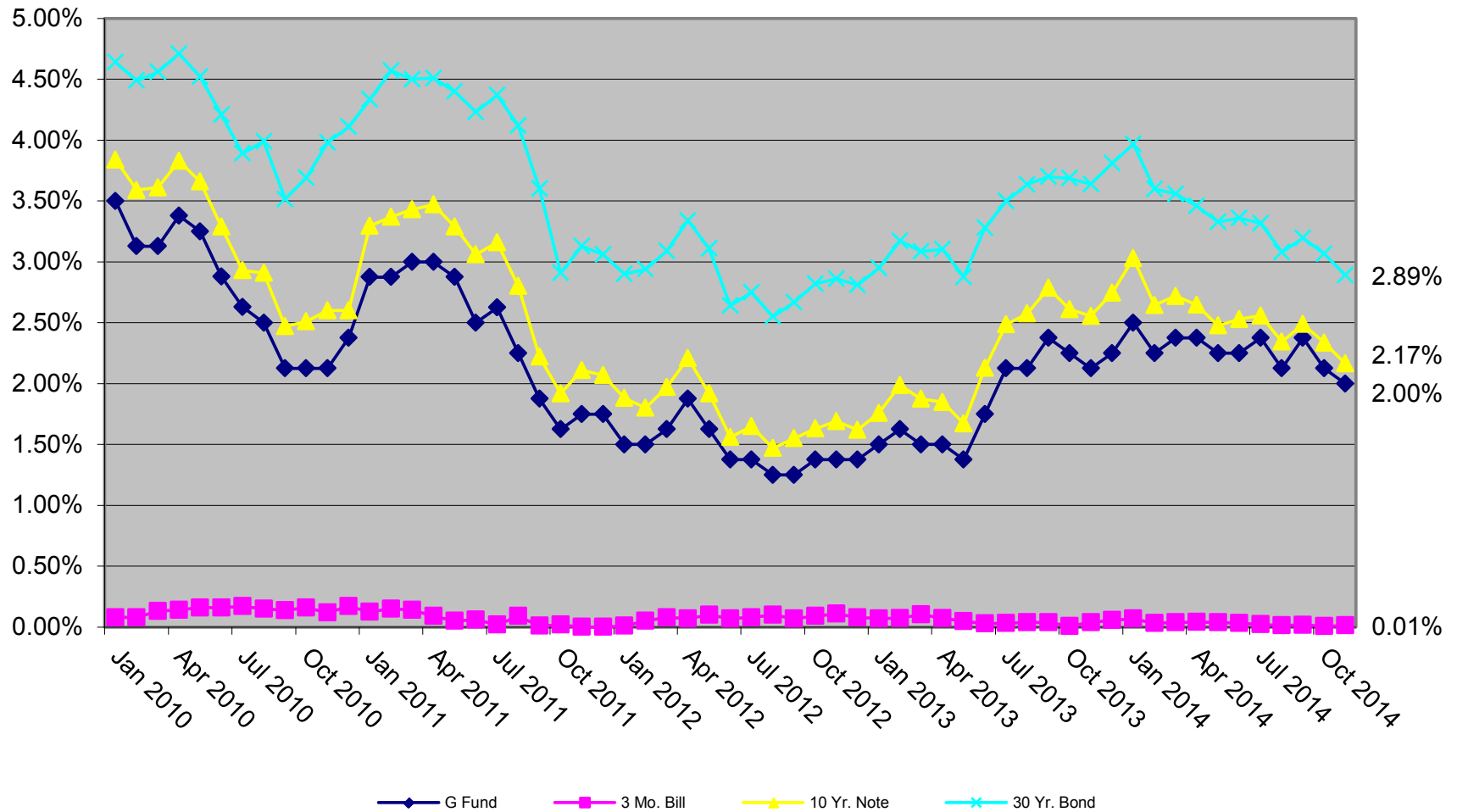
G Fund –

- Offers the opportunity to earn rates of interest similar to those of long-term Government securities but without any risk of loss of principal and very little volatility of earnings.
- The G Fund is invested in non-marketable, short-term U.S. Treasury securities with 1-4 day maturities specially issued to the TSP. Payment of principal and interest is guaranteed by the U.S. Government. Thus, there is no “credit risk.”
- The interest rate resets monthly and is based on the weighted average yield of all outstanding Treasury notes and bonds with 4 or more years to maturity.
- Earnings consist entirely of interest income on the securities.
- Managed in-house by the FRTIB
- Interest on G Fund securities has, over time, outpaced inflation and 90-day T-bills.



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G Fund Rate vs. Market Yields of U.S. Government Securities



Thrift Savings Plan

F Fund –

- Offers the opportunity to earn rates of return that exceed those of money market funds over the long term with relatively low risk.
- The objective of the F Fund is to match the performance of the Barclays Capital U.S. Aggregate Index, a broad index representing the U.S. bond market.
- The risk of nonpayment of interest or principal (credit risk) is relatively low because the fund includes only investment-grade securities and is broadly diversified. However, the F Fund has market risk (the risk that the value of the underlying securities will decline) and prepayment risk (the risk that the security will be repaid before it matures).
- Earnings consist of interest income on the securities and gains (or losses) in the value of securities.



Thrift Savings Plan

C Fund –

- Offers the opportunity to earn a potentially high investment return over the long term from a broadly diversified portfolio of stocks of large and medium-sized U.S. companies.
- The objective of the C Fund is to match the performance of the Standard and Poor's 500 (S&P 500) Index, a broad market index made up of stocks of 500 large to medium-sized U.S. companies.
- There is a risk of loss if the S&P 500 Index declines in response to changes in overall economic conditions (market risk).
- Earnings consist of gains (or losses) in the prices of stocks, and dividend income.



Thrift Savings Plan

S Fund –

- Offers the opportunity to earn a potentially high investment return over the long term by investing in the stocks of small and medium-sized U.S. companies.
- The objective of the S Fund is to match the performance of the Dow Jones Wilshire 4500 Completion (DJW 4500) Index, a broad market index made up of stocks of U.S. companies not included in the S&P 500 Index.
- There is a risk of loss if the DJW 4500 Index declines in response to changes in overall economic conditions (market risk).
- Earnings consist of gains (or losses) in the prices of stocks, and dividend income.



Thrift Savings Plan

I Fund –

- Offers the opportunity to earn a potentially high investment return over the long term by investing in the stocks of companies in developed countries outside the United States.
- The objective of the I Fund is to match the performance of the Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) Index.
- There is a risk of loss if the EAFE Index declines in response to changes in overall economic conditions (market risk) or in response to increases in the value of the U.S. dollar (currency risk).
- Earnings consist of gains (or losses) in the prices of stocks, currency changes relative to the U.S. dollar, and dividend income.

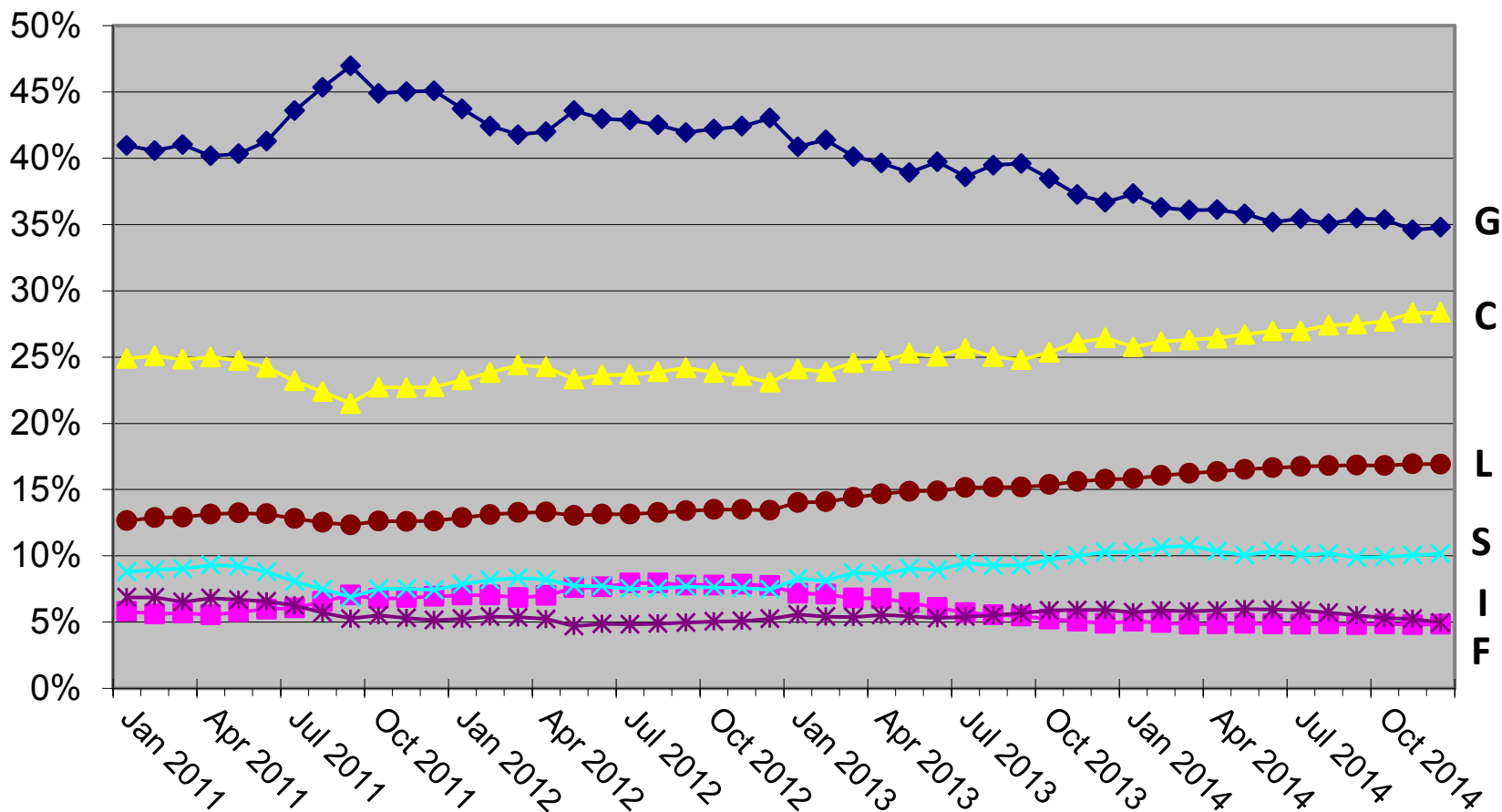


THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY

December 2014

Attachment

Participant Asset Allocation



Thrift Savings Plan - Funds

Lifecycle Funds - The L Funds provide you with a convenient way to diversify your account among the G, F, C, S, and I Funds, using professionally determined investment mixes that are tailored to different time horizons. Your “time horizon” is the date (after you leave Federal service) that you think you will need the money in your TSP account.



L20??

- The five L Funds were designed for the TSP by Mercer Investment Consulting, Inc. The asset allocations are based on Mercer’s assumptions regarding future investment returns, inflation, economic growth, and interest rates.
- The L Funds are rebalanced to their target allocations each business day.
- When a fund reaches its horizon, it will roll into the L Income Fund, and a new fund will be added with a more distant time horizon
- Putting your entire TSP account into one of the L Funds allows you to achieve the best expected return for the amount of expected risk that is appropriate for your time horizon.



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Allocations as of January 2015



L2050



L2040



L2030



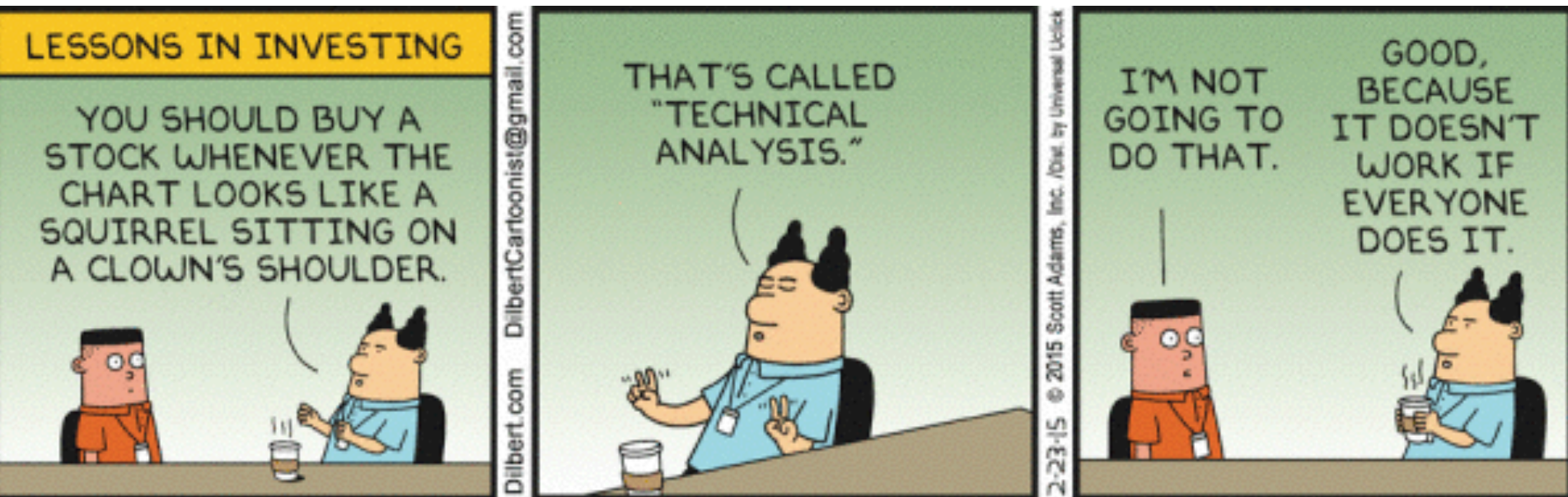
L2020



L Income

G Fund – 10.25%	G Fund – 18.77%	G Fund – 28.75%	G Fund – 43.9%	G Fund – 74%
F Fund - 4.25%	F Fund - 5.73%	F Fund - 5.75%	F Fund - 5.35%	F Fund - 6%
C Fund - 42.2%	C Fund - 38.2%	C Fund - 34.2%	C Fund - 27.35%	C Fund - 12%
S Fund - 18.1%	S Fund - 16.1%	S Fund - 12.2%	S Fund - 8.2%	S Fund - 3%
I Fund - 25.2%	I Fund - 21.2%	I Fund - 19.1%	I Fund - 15.2%	I Fund - 5%





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Allocating Your TSP In Volatile Markets

Considerations:

Assessing Your Tolerance for Risk

https://advisors.vanguard.com/iwe/pdf/investor_questionnaire.pdf



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NOT A GOOD SIGN.
OUR STOCK BROKER
ENCLOSED A MOTION
SICKNESS BAG WITH OUR
LATEST STATEMENT...

STOCK MARKET
IN FOR A WILD
RIDE AFTER
U.S. CREDIT
DOWNGRADE



Two of the greatest attributes any market participant can have are discipline and a plan of action. Without either of those you may find yourself subject to a vicious journey like this:

Happy Trading...



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https://advisors.vanguard.com/iwe/pdf/investor_questionnaire.pdf

Past Performance

Look at historical returns on www.tsp.gov



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10-year Average Returns

Year	G Fund	F Fund	C Fund	S Fund	I Fund
2005	4.49%	2.40%	4.96%	10.45%	13.63%
2006	4.93%	4.40%	15.79%	15.30%	26.32%
2007	4.87%	7.09%	5.54%	5.49%	11.43%
2008	3.75%	5.45%	(36.99%)	(38.32%)	(42.43%)
2009	2.97%	5.99%	26.68%	34.85%	30.04%
2010	2.81%	6.71%	15.07%	29.06%	7.94%
2011	2.45%	7.89%	2.11%	(3.38%)	(11.81%)
2012	1.47%	4.29%	16.07%	18.57%	18.62%
2013	1.89%	(1.68%)	32.45%	38.35%	22.13%
2014	2.31%	6.73%	13.78%	7.8%	(5.27%)
10-yr Avg	3.12%	4.89%	7.72%	9.44%	4.57%



10-year Average Returns

Year	L Income	L 2020	L2030	L2040	L2050
2005*	2.15%	3.40%	3.59%	3.92%	
2006	7.59%	13.72%	15.00%	16.53%	
2007	5.56%	6.87%	7.14%	7.36%	
2008	(5.09%)	(22.77%)	(27.50%)	(31.53%)	
2009	8.57%	19.14%	22.48%	25.19%	
2010	5.74%	10.59%	12.48%	13.89%	
2011	2.23%	0.41%	(0.31%)	(0.96%)	
2012	4.77%	10.42%	12.61%	14.27%	15.85%
2013	6.97%	16.03%	20.16%	23.23%	26.20%
2014	3.77%	5.06%	5.74%	6.22%	6.37%
10-yr Avg	4.15%	5.62%	6.16%	6.51%	



Allocating Your TSP In Volatile Markets

Considerations:

Assessing Your Tolerance for Risk

https://advisors.vanguard.com/iwe/pdf/investor_questionnaire.pdf

Past Performance

Look at historical returns on www.tsp.gov

Periodic Updates from TSP

Go to www.tsp.gov and Click on “Get e-mail updates

Click on the icon to subscribe and you’ll receive automatic updates by e-mail from TSP

Outside Resources



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TSP Resources

MyTSPVision – www.MyTSPVision.com - provides subscribers with professional analytic investment information on a quarterly basis designed to maintain your TSP portfolio with a lower level of risk while growing the portfolio

TSP Talk - www.tsptalk.com - this site isn't meant to tell you how to allocate your TSP. The goal is to provide you with the information you need to help you make your own decisions.

TSP Center – www.tspcenter.com/index.php - FantasyTSP™ and discussion forum for the Thrift Savings Plan investor

Thrift Trading – www.thrifttrading.com – helps government employees increase their Thrift Savings Plan in a low-risk/high-reward manner in both bullish and bearish markets.

TSP Pilot – www.tsppilot.com - brings you tested, reliable and timely fund allocation percentages to maximize the performance of your TSP account.

TSP Key – www.tspkey.com - uses a proprietary system to determine the optimal allocations for each TSP fund.

TSP Max – www.tspmax.com - a system for determining optimum points of entry and exit for each of the TSP funds and a family of asset allocation strategies designed to fit any federal employee's level of risk tolerance

The TSP Advisor – www.tspadvisor.com - provides predictions for which TSP Fund will have a positive return in the future, and provides a strategy for determining what percentage of your TSP account funds to place in each prediction

TSP Wire – www.tspwire.com - weekly allocation decisions are based on multiple factors which include technical and fundamental valuation models, major economic indicators, political environment, seasonal trends, pressure from foreign exchange currency markets and trends in commodities price changes

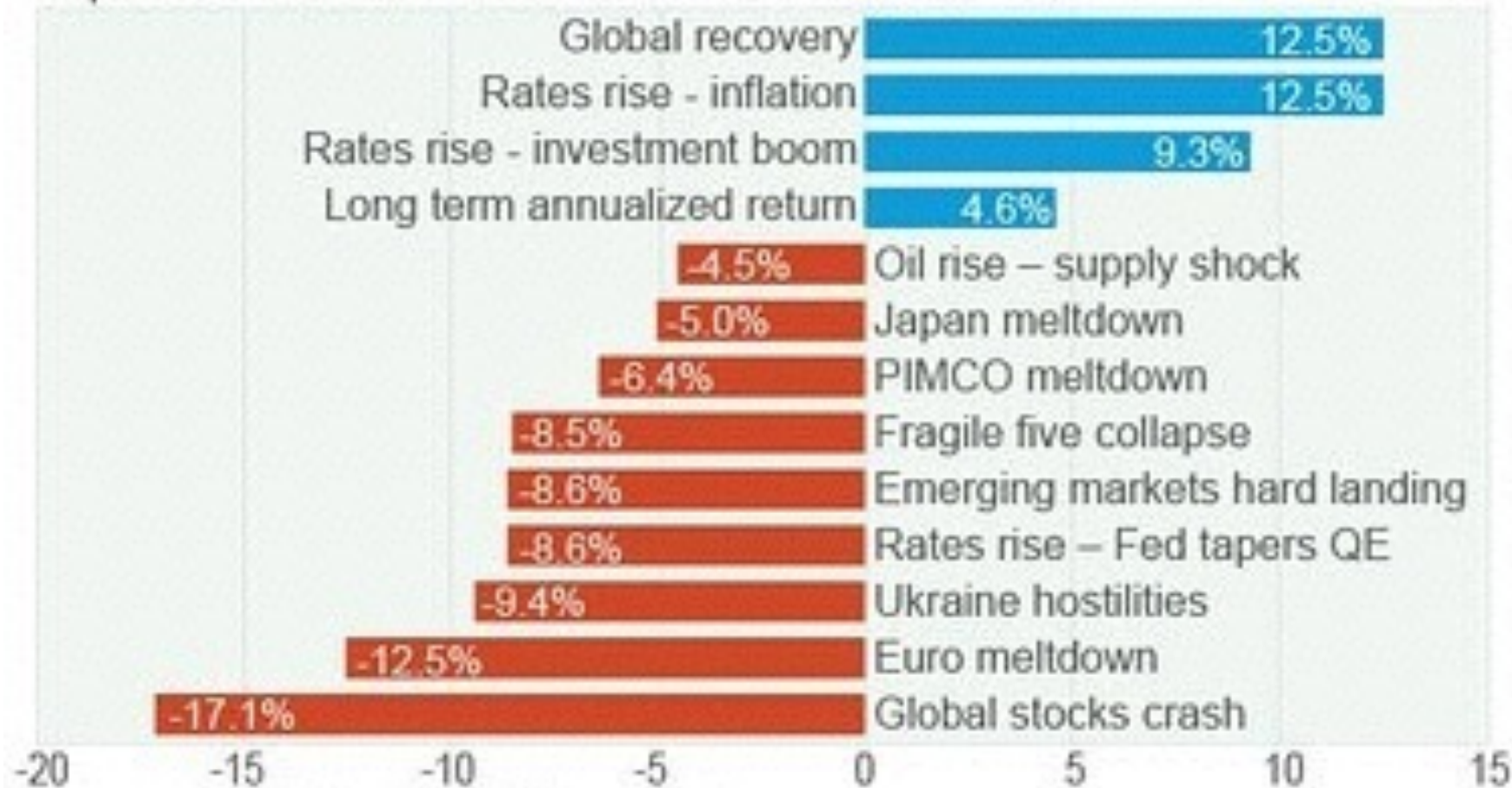
TSP Wealth – www.tspwealth.com - approach to make money during good times and protect your TSP from the nasty downturns during bear markets



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A portfolio stress test

Expected annual returns under conditions of:



Note: For a portfolio of 50% iShares Barclays Aggregate Bond (AGG) and 50% SPDR S&P 500 (SPY)

Source: PortfolioCrashTest.com



Portfolio Crash Testing

You may:

- Sign up to have your portfolio “crash tested.” You can use your TSP, outside assets, or both.



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Thrift Savings Plan - Fees

2014 Expense Fees = .0285%



Use low-cost index funds

Keep it simple – only five funds available

Huge economies of scale – competitive procurement

Use commingled trust funds instead of individual accounts

- Only invest one amount per fund each day
- Individual accounts are maintained in TSP



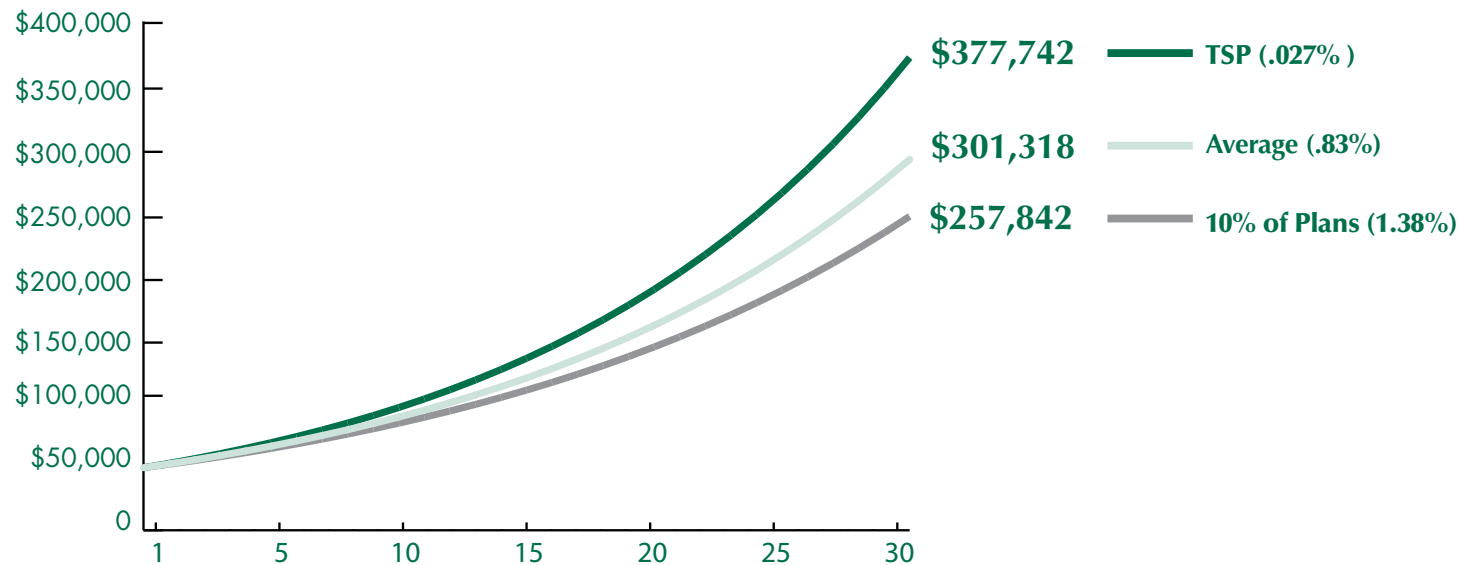
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Long-term Effects of Lower Fees

Average Fee in Defined Contribution Plan - \$8.30/\$1,000

10% of Defined Contribution Plans Have Fees - \$13.80/\$1,000

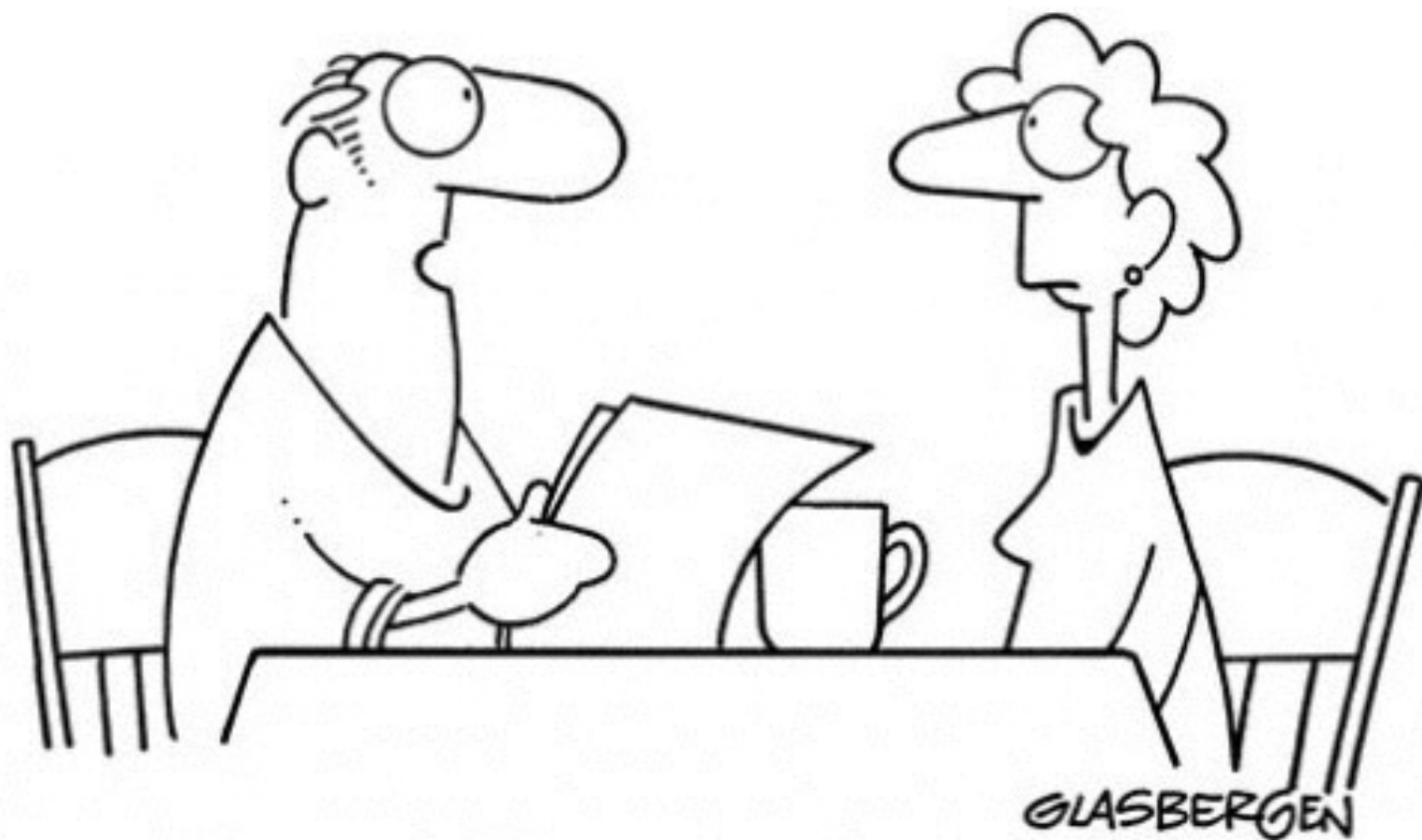
Long-term effect of paying less to invest? You save more — a lot more. Compare how \$50,000 will grow over 30 years at various fee levels (and a 7% annual rate of return).



* Deloitte. "Inside the Structure of Defined Contribution/401(k) Plan Fees: A Study Assessing the Mechanics of the 'All-In' Fee." Investment Company Institute, 2011.



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**“Here’s our retirement plan: at age 65,
we’ll get divorced then marry other
people who planned better.”**

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